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HOUSTON OILS LIMITED

7/6



ANNUAL  
REPORT  
1969

# HOUSTON OILS LIMITED

AND SUBSIDIARY COMPANY

## DIRECTORS

JAMES A. MILLARD, Barrister and Solicitor, Calgary, Alberta  
WILLIAM A. CLARKE, Investment Dealer, Oakville, Ontario  
CHARLES F. AGAR, Executive, Calgary, Alberta  
LOUIS MARX, SR., President Louis Marx & Co., Scarsdale, New York  
ALBERT E. WHITEHEAD, President Houston Oils Limited, Calgary, Alberta

## OFFICERS

ALBERT E. WHITEHEAD, President  
DARRELL R. LONG, Vice-President, Exploration  
THOMAS M. M. BENDER, Treasurer  
JAMES A. MILLARD, Secretary

## HEAD OFFICE

1690 Elveden House, 717 - 7th Avenue S.W., Calgary 2, Alberta

## TRANSFER AGENT and REGISTRAR

The Canada Trust Company, Calgary, Vancouver, Toronto, Montreal

## AUDITORS

Collins, Love, Eddis, Valiquette & Barrow, Calgary, Alberta

## LEGAL COUNSEL

MacKimmie Matthews, Calgary, Alberta

## BANKER

The Toronto-Dominion Bank, Calgary, Alberta

## TO THE SHAREHOLDERS:

We are pleased to welcome all those who became new shareholders in December when Houston Oils Limited became a public company. Although this annual report covers the fiscal year ending September 30, 1969, which was prior to the issuance of 600,000 common shares and 300,000 share purchase warrants, it will serve to acquaint our many new shareholders with the operations and plans of Houston Oils Limited.

Average net monthly production income for the fiscal year was \$4,671. Net monthly production income increased substantially toward the latter part of 1969 and for the month of December, amounted to approximately \$12,000. Operating revenue increased for the year to \$269,165 compared with \$165,750 in the prior fiscal period. Net income increased to \$53,236 from \$4,824.

A private placement of shares early in 1969 provided the Company with the funds necessary to undertake an aggressive acquisition program which increased our working and royalty interests in various oil, gas, and mineral holdings to more than 19 million gross acres. These interests are located in British Columbia, Canada East Coast (offshore), Alaska, Foxe Basin, the Canadian Arctic, Northwest Territories, Alberta, Saskatchewan, Manitoba, North Dakota and Montana. The Company looks forward to a busy drilling program this year with drilling plans underway in several areas of Western Canada, Montana and North Dakota.

Proceeds from the issuance of shares and warrants to the public amounted to \$1,810,000 after expenses, which amount is being used to continue development of the Company's properties in the Plato Field area of Saskatchewan and to acquire other prospective lands and to carry out an accelerated exploratory drilling program.



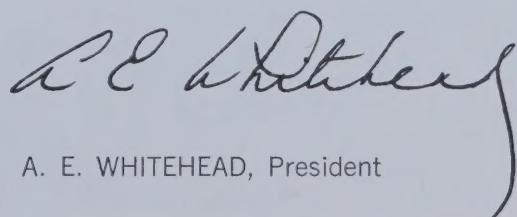
Activity continues to increase in the Canadian Arctic where the Company has an interest in over 11 million gross acres. Several companies are planning tests in this area including the Panarctic group who are presently drilling their third and fourth test wells of a planned multi-well program. The Company anticipates that exploration activity will continue in this area for several years.

The Canadian oil and gas industry maintained a healthy growth rate during the 1960's and should realize an even greater growth rate in the 70's. With the market demand for oil and gas growing at an ever-increasing rate on the North American continent, Canada, with vast oil and gas reserves yet to be tapped, can look forward to the continued development of one of its most important natural resource industries. We are confident that the present and future plans of Houston Oils Limited will enable us to take advantage of every available opportunity to maximize our growth potential in this dynamic industry.

Applications are pending with the Toronto and Canadian stock exchanges to list for trading the Company's common shares and share purchase warrants.

The Board of Directors takes this opportunity to thank its employees, associates, and shareholders for their confidence and trust.

On behalf of the Board of Directors,



A. E. WHITEHEAD, President

## EXPLORATION ACTIVITIES

During the past year the Company has increased its inventory of exploration acreage considerably in virtually all of the active areas of Canada. A substantial amount of acreage was acquired in the Canadian Arctic. The Company has an overriding royalty interest in over 9 million acres in this area which carries no work obligations whatsoever. Working interests are held in the Arctic in 2.6 million acres. We are presently discussing sales and/or farmouts of a portion of these working interests.

This past year the Company acquired an interest in several areas of Alaska, among which was an overriding royalty on 50,896 acres of Home Oil Co. leases located on the North Slope Southwest of Prudhoe Bay. The Home Bush Federal No. 1 and the Arco Toolik Federal No. 3 are presently being drilled on lease blocks adjoining some of our override lands.

We also have representative acreage offshore on the East Coast of Canada. This area will command considerable attention during the next year because of drilling plans being announced by several major companies.

The Company has a 50% interest in a large reef prospect in North Dakota on which we have leased approximately 67,000 acres. We have recently carried out a geophysical program on the main prospect area and the results are very encouraging. We plan to

initiate a multi-well drilling program on this prospect during the coming summer and fall.

The Company is presently completing plans to start an eight well drilling program on a shallow gas prospect located west of the Tiger Ridge Gas Field in Northern Montana. The Company will retain a 25% working interest in this prospect in which we now have approximately 60,000 acres under lease.

Another interesting Company project is our Lakeside Prospect in North Dakota. The Company has acquired an interest in a 3,667 acre block on which two deep test wells previously drilled and abandoned (11,200' and 12,000') are located. We feel these tests were inadequately tested and we are planning to re-enter and test at least one of them. If mechanical problems are encountered in the first attempt we will move the rig and re-enter the other well.

The Company is continuing its evaluation of geophysical data obtained from the Chilver Lake area west of Calgary on a 56,000 acre reservation obtained under geophysical option agreement.

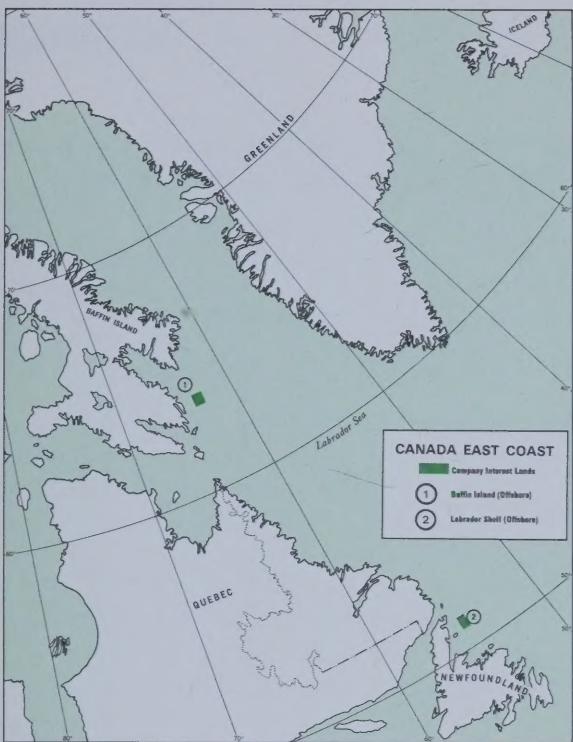
In Southern Alberta the Company is planning a test of the Mississippian Formation just north of the Reagan Field. We will have sufficient support to lower the cost of this test to about one-half its normal cost. The Company has a 33⅓% interest in 2,563 acres on this prospect.

In East Central Alberta near Whitford Lake the Company is participating in a geophysical program and plans to drill at least one test well on a sizable block of acreage held under a geophysical and drilling option agreement.

The Company has obtained lands under farmout agreement in the Gardenhead area of Southwest Saskatchewan and will drill a Lower Shaunavon test on these lands in April. This test will help evaluate a Drilling Reservation posted for sale in the prospect area.

We are preparing to drill a Blairmore test in the Westlock area of Alberta and due to support of this test, it will be a very low cost venture. The Company will have approximately 30% interest in this project.





## DEVELOPMENT

The Company is proceeding to develop its proven acreage in the Plato Field, Saskatchewan. We anticipate drilling about 6 to 10 development wells before summer. Plans are also being considered by the various operators in this field to unitize and place the field under a pressure maintenance program in the near future.

Our recently connected gas well at Aden is performing very well and we are presently planning to drill a west offset to this well this coming summer. The Company has a 75% interest in 1,920 acres offsetting this well.

The Company participated in drilling a gas discovery in the Matziwin area of Alberta in December. Additional lands were obtained under Farmout Agreement and a followup test was drilled in late February. This test was also completed as a gas well. The Company has now earned an interest in approximately 7,300 acres on this prospect and has options to earn other lands. We anticipate drilling additional tests in the prospect area in order that sufficient gas reserves might be established to ensure a pipe line connection this summer.

## MINERAL EXPLORATION

The Company plans to continue its exploration of two mineral permits located in the Baker Lake area of the Northwest Territories.

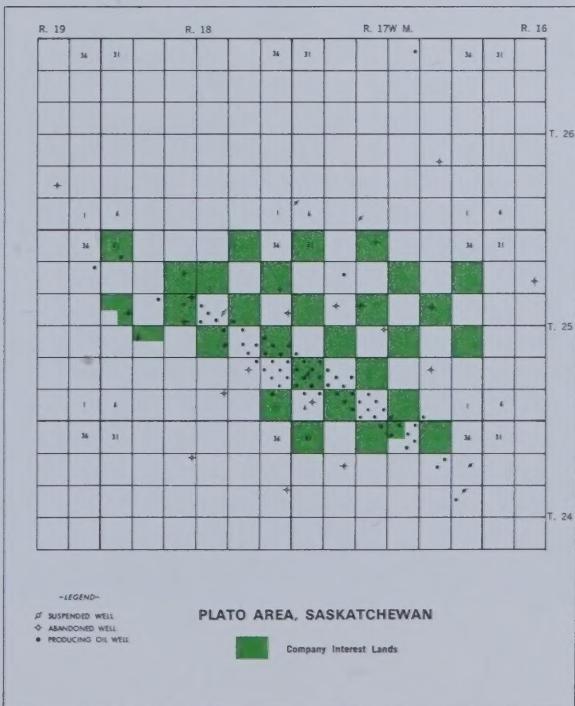
This area is shaping up as one of the most active mineral areas in Canada this next work season.

## MISCELLANEOUS EXPLORATION

The Company through its 25.5% equity ownership in Tur-Kan Petrol Ltd. is presently carrying out geophysical work on its Exploration Licences in District V of Turkey. We are hopeful this work will enable us to interest other companies in drilling on Tur-Kan lands.

The Company has a 4.5885% working interest in Block Q-11 located in the Dutch North Sea. NAM (Shell and Esso) drilled a well on this block this past summer which encountered gas but not in commercial volumes. Seismic data is presently being reinterpreted to determine the feasibility of further exploration on the block.

Bridger Petroleum Corporation, Houston's wholly owned U.S. subsidiary, has entered into an exploration agreement with Remuda Corporation, Geological Consultants, of Billings, Montana. This agreement covers the Northeastern portion of Montana and the Northwestern portion of North Dakota, where a considerable amount of deep drilling is presently underway in search of Ordovician oil production. Remuda and Associates have agreed to originate drillable prospects in the agreement area and Bridger will have first right of refusal on these prospects.



# HOUSTON OILS LIMITED AND SUBSIDIARY COMPANY

## CONSOLIDATE

As at September

## ASSETS

The accompanying notes are an

This is the balance sheet referred  
Collins Love Eddis Valiquette & Barrow,

# BALANCE SHEET

1969 and 1968

Statement 1

## LIABILITIES AND SHAREHOLDERS' EQUITY

	1969	1968
Current liabilities		
Bank indebtedness – secured	\$ 5,756	\$ 41,823
Accounts payable and accrued charges	242,764	74,899
Long term debt – portion due within one year	43,672	48,859
Total current liabilities	<u>292,192</u>	<u>165,581</u>
Long term debt		
Lease purchase agreement – 5½%	94,062	–
Less: Portion due within one year	43,672	–
	<u>50,390</u>	<u>–</u>
Shareholders' equity		
Share capital (Notes 4 and 6)		
Authorized		
5,000,000 without nominal or par value		
Issued		
1,395,000 shares (1968 – 15 shares)	854,941	15
Retained earnings – Statement 2	119,873	66,637
	<u>974,814</u>	<u>66,652</u>
Commitments (Note 7)		
	<u>\$1,317,396</u>	<u>\$232,233</u>

part of these financial statements.

the accompanying auditors' report of  
ered Accountants, dated December 10, 1969.

**CONSOLIDATED STATEMENT OF INCOME  
AND RETAINED EARNINGS**

For the years ended September 30, 1969 and 1968

	<b>1969</b>	<b>1968</b>
<b>Revenues</b>		
Exploratory ventures and lease sales . . . . .	\$152,344	\$ 81,109
Oil productions (net) . . . . .	56,062	26,697
Profit on sale of producing properties . . . . .	-	39,034
Other . . . . .	60,759	18,910
	<hr/> 269,165	<hr/> 165,750
<b>Expenses</b>		
Cost of exploratory ventures and lease sales . . . . .	58,967	48,665
Unproductive development and property abandoned . . . . .	38,037	25,880
Lease rentals . . . . .	6,401	2,174
General and administrative expenses (net) . . . . .	85,537	57,626
Depletion . . . . .	5,331	9,448
Depreciation . . . . .	18,647	11,991
Interest . . . . .	3,009	4,824
	<hr/> 215,929	<hr/> 160,608
Net income before income taxes . . . . .	53,236	5,142
Income taxes (Note 5) . . . . .	-	318
Net income for the year . . . . .	53,236	4,824
Retained earnings – beginning of year . . . . .	66,637	61,813
Retained earnings – end of year . . . . .	<hr/> \$119,873	<hr/> \$ 66,637

**CONSOLIDATED STATEMENT OF SOURCE  
AND APPLICATION OF FUNDS**

For the years ended September 30, 1969 and 1968

	<u>1969</u>	<u>1968</u>
<b>Funds provided</b>		
Net income for the year . . . . .	\$ 53,236	\$ 4,824
Add: Expenses not requiring outlay of funds		
Depreciation . . . . .	18,647	11,991
Depletion . . . . .	5,331	9,448
Other . . . . .	1,326	-
Total funds provided from operations . . . . .	78,540	26,263
Long term debt . . . . .	50,390	-
Share capital issued . . . . .	854,926	-
Other . . . . .	5,854	-
<b>Total funds provided</b> . . . . .	<u>989,710</u>	<u>26,263</u>
<b>Funds applied</b>		
Acquisition (disposal) of properties (net) . . . . .	865,069	(10,545)
Acquisition of fixed assets (net) . . . . .	39,233	1,651
Repayment of advances from shareholders . . . . .	-	4,621
Investments in and advances to subsidiary company . . . . .	13,500	-
Note receivable . . . . .	25,000	-
Drilling deposits advanced . . . . .	13,500	9,350
Miscellaneous . . . . .	4,190	350
<b>Total funds applied</b> . . . . .	<u>960,492</u>	<u>5,427</u>
<b>Increase in working capital</b> . . . . .	<u>\$ 29,218</u>	<u>\$ 20,836</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 1969

## NOTE 1: Accounting Practices

The company follows the practice of capitalizing all lease acquisition costs and exploration costs. If the lease is subsequently surrendered the accumulated costs are charged to income at the time of surrender. The costs of drilling unproductive wells are charged to income when the prospect area is abandoned. Lease acquisition costs and exploration costs of the producing prospect areas are amortized on the unit of production method based on estimated recoverable reserves of oil and gas. Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize their costs over their estimated useful lives.

## NOTE 2: Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary, Bridger Petroleum Corporation, a United States corporation. The consolidated statement of income includes the subsidiary's operating results from the commencement of its business on December 11, 1968 to September 30, 1969.

The accounts of the subsidiary have been converted to Canadian dollars on the following basis:

Current assets and current liabilities at the rate of exchange in effect at September 30, 1969.

Other assets and liabilities at the rate of exchange in effect at the date of the transaction.

Income and expenses at the average rate of exchange for the year.

The net exchange difference, which is not material in amount, is carried in the balance sheet under the caption "Other assets".

## NOTE 3: Note Receivable — Shareholder

The company loaned \$25,000 to Mr. D. R. Long, an employee, who is an officer of the company, for the purchase of fully paid shares in the capital of the company. The loan is evidenced by a promissory note payable on or before August 1, 1974 and is secured by the certificates representing the 10,000 shares purchased, which certificates are deposited with The Canada Trust Company, as Trustee.

## NOTE 4: Share Capital

(a) On January 27, 1969 the authorized capital of the company was changed from 20,000 shares with a par value of \$1 each to 5,000,000 shares without nominal or par value which may be issued for an aggregate consideration not exceeding \$5,000,000 and the 15 shares with a par value of \$1 each then outstanding were converted into 600,000 shares without nominal or par value.

(b) Between March 15, 1969 and September 30, 1969 630,000 shares were issued for a cash consideration of \$553,926.

(c) Between April 15, 1969 and September 30, 1969 165,000 shares with a stated value of \$301,000 were issued for properties.

## NOTE 5: Income Taxes

Under the provision of the Canadian and United States Income Tax Acts the companies are entitled to claim and have claimed intangible exploration and development expenses which exceed the amounts written off as an expense in the accounts. As at September 30, 1969 the company has incurred \$802,863 of intangible exploration and development expenses which have not been claimed for tax purposes and which are available for carry forward against taxable income of future years.

The company is of the opinion that the "Tax Allocation" basis of recording income taxes relating to timing differences in claiming intangible exploration and development expenses as advocated by some accounting authorities is not appropriate for companies in the oil and gas industry. This view conforms with general practice in the oil and gas industry.

Had the company used the "Tax Allocation" basis with respect to intangible exploration and development expenses, the results of its operations for the year ended September 30, 1969 would have been:

Net income — Statement 2	53,236
Less: Income taxes — deferred	28,436
Net income for the year	<u><u>\$24,800</u></u>

On a cumulative basis to September 30, 1969 deferred income taxes would have been \$71,754.

It is the policy of the company to provide for deferred income taxes with respect to timing differences relating to tangible assets. However as at September 30, 1969 there were no material differences of this nature and thus no deferred income taxes have been provided in this respect.

## NOTE 6: Subsequent Events

(a) On October 23, 1969 the Directors gave approval to the issuance and sale of 600,000 shares and 300,000 share purchase warrants for an aggregate consideration of \$1,850,000.

(b) Each warrant carries the right to purchase one share of the company at \$3.50 for a period of three years from the date of issue of the warrant.

(c) 300,000 shares will be reserved for the exercise of the share purchase warrants.

(d) On October 23, 1969 the Directors gave their approval to reserve 50,000 shares of the company for issuance under a stock option plan for key employees of the company.

## NOTE 7: Commitment and Contingencies

(a) The company holds a number of federal petroleum and natural gas exploratory permits covering acreage in the Arctic and East Coast areas. The terms of these permits require the company to expend a net total of \$78,748 in exploratory work before December, 1972.

(b) As security for this work commitment the company has issued non-interest bearing promissory notes in this sum to the Government of Canada.

(c) The company is a joint guarantor of a letter of credit in the approximate amount of \$40,000 issued to the Petroleum Administration of the Turkish Government covering work performance and damage indemnifications.

(d) The subsidiary is obligated to pay the amount of \$70,848 in connection with certain lease applications in Alaska if and when the relevant leases are issued.

# AUDITORS' REPORT

The Shareholders

Houston Oils Limited

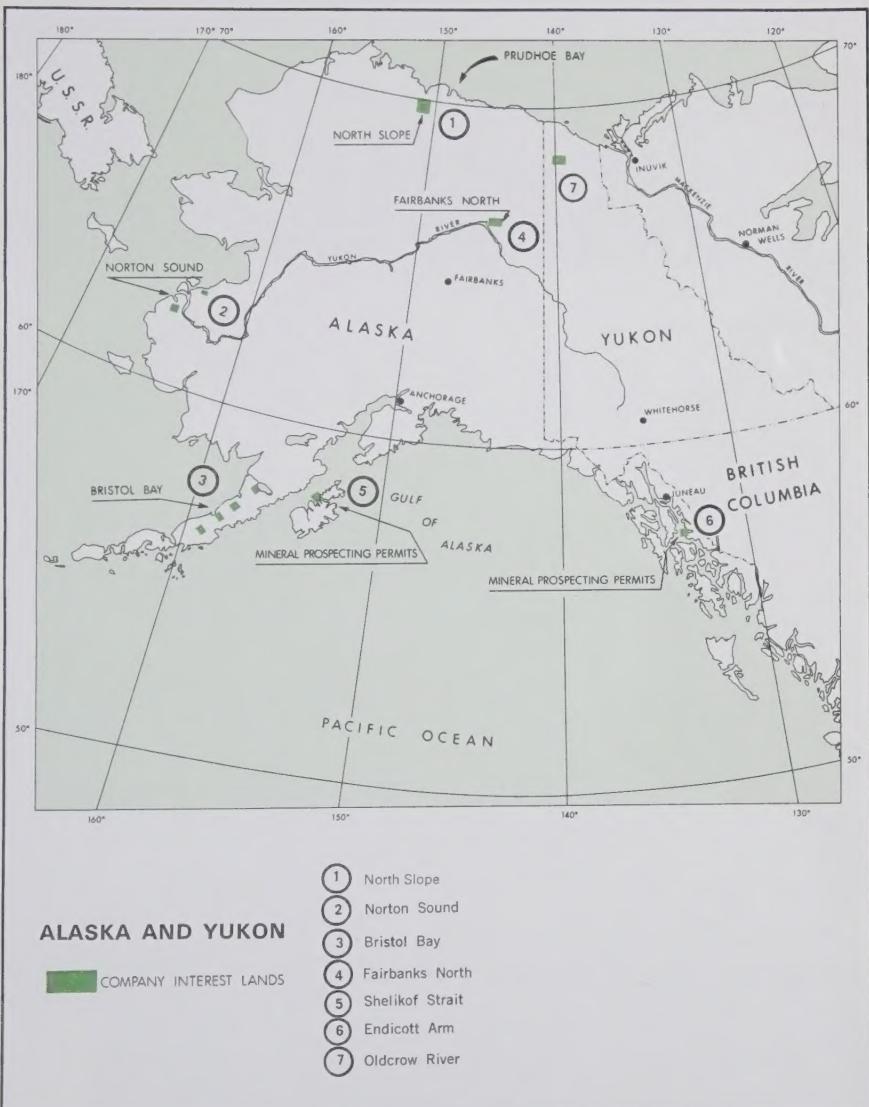
We have examined the consolidated balance sheet of Houston Oils Limited and its subsidiary company as at September 30, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1969 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
December 10, 1969

COLLINS LOVE EDDIS VALIQUETTE & BARROW  
Chartered Accountants





HOUSTON OILS LIMITED